

Chairman's Address – Credit Corporation PNG 2018 Annual General Meeting

Fellow shareholders, Credit Corporation colleagues, ladies and gentlemen, good afternoon and welcome to the Company's 2018 AGM.

My name is Syd Yates, and it was my pleasure and a privilege to be appointed Chairman of Credit Corporation PNG in November 2018 and to have this first opportunity to provide an overview of the many positive developments which have occurred within the Group over the past year at this year's AGM.

It has been an historic year for Credit Corporation and an immense honour to lead this Company during the celebration of our 40th year of business.

Credit Corporation holds a special place in PNG and the South Pacific's business history and also in the lives of many people throughout PNG and the Pacific. I would like to use this opportunity to recognise the contributions of our employees, customers, community partners and you, our shareholders. All of you have played a part in making Credit Corporation such a great Company over so many years.

As I reflect back on our 40th year anniversary, it has reinforced the things that have made this Company great – the importance of a strong balance sheet, a wonderfully inclusive culture, a real focus on delivering for our customers and a genuine care for the communities we serve throughout the South Pacific.

This year also put a focus on our strategy and ensuring this strategy, is the right strategy, for our Company and for the times.

As we head into our fifth decade, we aspire to set the standard for how a financial services business should be run.

With that in mind, we set a new strategic direction designed to bring our vision to life – **“To be the best performing financier in every market in which we operate in terms of customer experience and profitability.”**

At the core of our strategy is our purpose of helping our customers achieve their important financial objectives. For our shareholders it means we are creating value by forging long-term relationships with our customers.

I wanted to also use this opportunity to highlight how the Company has delivered for our shareholders over many years.

A recent analysis of returns to our shareholders shows that K1,000 invested in Credit Corporation at its inception would be worth at least K166,000 today, representing a return of 18% per annum.

Performance

That brings me to the important subject of our financial performance in 2018. During the year we delivered a strong performance returning financial stability to the business.

The Group recorded a 33% increase in net profit after tax of K98m in FY18. The core profit also increased by 14% to K86m reflecting a stable performance of the underlying business.

We also saw a lift in our Return on Equity to 10.4%.

While the financial numbers are important, it is also important to understand the context in which this performance was delivered.

This performance was delivered when significant work was required to stabilise the Company's financial performance. Importantly this was achieved in a period of significant regulatory change, with rising regulatory costs, while some economic headwinds prevailed in the geographies in which the Company operates.

It was also a year in which we increased our management bench strength and they are focused on enhancing financial discipline, managing our growth and margins well, keeping expenses under control and strengthening the balance sheet.

The Company's Tier 1 capital, which is the important benchmark for capital strength, was 20% as at 31 December 2018, was well in excess of BPNG's unquestionably strong capital requirement of 12%. This is despite a decrease due to a retained earnings adjustment attributed to the adoption of IFRS 9. We have an impressive K188 million underpinning the stability of the Finance Company, so we remain very well capitalised.

Given these outcomes, the Board has declared a final dividend on ordinary shares in respect of FY18 of 13 toea per share, compared to 11 toea per share in FY17.

This brings the total dividend for FY18 to 19 toea per share, compared with 15 toea per share in FY17, representing a 27% increase on the previous year.

Management performance

We have strengthened our management team with the addition of new executive talent to ensure we have the right leaders in place to deliver on our refined strategy.

Peter Aitsi was appointed CEO of the Group in January 2018. He has made a significant contribution since joining the Group, driving the development of the Strategic Plan, setting new staff performance benchmarks and bringing into the organisation a highly professional management team with the skills and experience to deliver on our strategy and objectives.

The Group has also appointed a new Chief Financial Officer, Jeff Undah and a new Head of Credit David Wenham. We are also currently recruiting for a Chief Risk Officer and General Manager for our property division.

In aggregate, the Board has been pleased with the performance of the management team.

Delivering strong governance

Governance and risk continue to be a focus of the Board.

From a governance perspective, there have been a number of changes to the composition of the Board and senior management.

I would like to thank my fellow Directors for their contribution in terms of governance leadership regarding operational and compliance risk. New appointments to the Board, along with myself, include Richard Sinamoi, Johnson Kalo, James Kruse, and Michael Varapik. Their expertise compliments the skills and experience of Directors Faye-Zina Lalo, Dr Albert Mellam, Abigail Chang and David Doig. I would like to thank the current Board for its support since my transition to role of Chairman.

There are two retirements by rotation this year, Dr Albert Mellam and Ms Abigail Chang and you'll be hearing more about those retiring directors a little later in the meeting when we'll be asking you to support their re-election.

I would also like to take this opportunity to acknowledge Director David Doig, who is retiring at today's AGM after joining the Board in July 2015.

During that time David has served the company with distinction, focused at all times on protecting shareholder interests, and has been an outstanding contributor on the Board. Thank you, David.

A key focus will also be strengthening the Group's risk and compliance structures to meet the ongoing requirements of regulators across the Pacific as it moves towards best practice.

As a key action in these important areas, the Board has designated separate audit and risk committees. The separate risk committee will assist Directors in focusing increased attention on the company's most critical risks and risk management capabilities.

Peter will also talk later on our decision to recruit for a Chief Risk Officer as a further step in managing risk.

Resolutions

The Group is tracking well, but nevertheless we respect the right of any shareholder to ask questions and requisition resolutions.

We note that of the action items raised in last year's AGM, only the BSP share re-distribution matter remains unresolved.

The Board has received from Teachers Savings and Loan Society Limited a request that resolutions related to a proposal that the Company effect an in specie distribution to shareholders of its shareholding in Bank of South Pacific Limited (BSP), be put to shareholders.

Following the 2018 AGM, the in specie distribution was within the scope of the Company's strategic review, and work has been ongoing to ascertain the risks, taxation and legal implications that the proposal will have for the Company and all shareholders, if it is implemented. This includes consideration of whether the Company would satisfy the "solvency" test in the Companies Act to effect a distribution of the BSP shares.

Credit Corporation is also in discussions with Bank of Papua New Guinea in relation to a number of key issues related to the proposal, including the financial impact on the Company as a deposit-taking institution, shareholder concentration in BSP, and any potential conflicts the proposal may create in relation to relevant legislation.

The Board also recognises the value of the BSP shares in driving forward the Group's future growth strategy.

The new Board has worked hard to stabilise the organisation, and we now need to fully focus our attention on driving further improvements in the business. Any decision to divest assets needs to be very carefully considered taking full account of the regulatory, financial and strategic implications and the impact on shareholder value.

Once the Board has a full understanding of the impacts of these complex issues it will be in a position to make a recommendation to shareholders on whether it considers the distribution in specie of BSP shares to all shareholders will be in the best interest of the Company and its shareholders.

We ask that further sufficient time be given to the Board to thoroughly consider all impacts of such a transaction and we welcome discussion from shareholders on this matter later in the meeting.

Performance and Directors' remuneration

Now I would like to talk to you about the important and linked issues of company performance, share price, dividends and Directors' remuneration.

Firstly, I have had some concerns raised with us about Credit Corporation's performance over the past year. I believe this is not supported by the facts.

In the face of macro-economic challenges, at the same time needing to turnaround and stabilise the Company's performance, Credit Corporation has actually still managed to deliver increased profit, pay and increased dividend, and broadly maintain market share in most segments.

What has been disappointing to all, however, was the company's share price performance.

I think that it is critical that this distinction be clearly made.

So why has the company's share price under-performed?

We believe the current share price is not indicative of underlying value, we base this view on our dividend history, the quality of our assets and our latest financial performance.

The price of shares in the market is obviously the price at which investors are prepared to sell, and at which other investors are willing to buy.

POMSIX is also an inactive exchange where the majority of Credit Corporation's shares are held by a small number of large investment entities who do not actively trade.

So, there is no magic bullet that can fix the share price apart from continuing to make profits and pay dividends to our shareholders.

However, we as a financial services company like many others in our part of the world are confronting a range of challenges that are constantly evolving and changing. And I hope most of our shareholders would understand these challenges will not be completely resolved by 31 December 2019.

I would also like to remind our shareholders that your current Board has been formally in place since November 2018 following Bank of PNG approval.

My Board colleagues and I are acutely aware of the impact of Credit Corporation's share price on the portfolio valuations of our institutional shareholders and their reported results.

I believe we are fortunate to be the beneficiary of a number of long-term investors, who are supportive of the actions we are taking and through their commitment are enabling us to think longer-term so that we remain a successful and sustainable company.

However, as a Company and as shareholders we must always be aware of the perverse effects of 'short-termism' and focus attention on longer term objectives. The health of Credit Corporation is dependent on long term planning and execution of corporate and investment strategies.

So, it is important that we the Board, our management team and our shareholders are all unified in our thinking on this.

Before I ask Peter to address the meeting, I want to make some comments on the fourth item on today's agenda, the proposal to increase the Director's fee pool, as this is inextricably linked to the performance comments I have just made.

The Directors are seeking shareholder approval to increase the fee pool from K1,000,000 per annum to K1,600,000

This is based on the fact that the Board membership in 2018 increased to nine (9) non-executive Directors at the request of a substantial shareholder in April 2018.

However, shareholders did not subsequently approve the proposed increase in the fee pool at the last AGM in 2018, despite supporting additional Director appointments.

The Board believes based on the fact there has not been an increase in Directors' fees since June 2014 and that the number of Directors has increased, as approved by shareholders, it is timely and appropriate to seek shareholder approval for an increase in the fee pool.

The proposed increase maximum is based on the Board's benchmarking study and advice received from outside consultants which reflects remuneration paid to Directors in comparable POMSoX listed companies. The internal benchmarking showed Board Director fee pools which could be classified as low (K1,000,000), median (K2,000,000) and high (K4,500,000). Based on this analysis, Credit Corporation's proposed new fee pool, will continue to be positioned below the median level of fee pools.

Board succession and composition remains a focus of the Credit Corporation Board.

The Board recently completed an independent review by a BPNG endorsed Governance Specialist. As part of that independent review, a skills audit of each Director was also undertaken to ensure that the Board maintains the skills, experience and diversity to oversee and support the ongoing growth of the business.

The independent assessment considers board composition, numbers and skill sets as we move toward a fully independent Board to align with BPNG prudential standards.

The recommendations from that review will translate into a succession plan for the Board going forward, with particular regard for skillsets and experience to enhance value in decision making.

The proposed increase to the fee pool is also intended to provide sufficient flexibility to attract and retain appropriate appointments to the Board as and when suitable candidates are identified.

As I said in my earlier remarks, we are also operating in challenging times and the future of the company demands that we implement a major transformation strategy.

In this environment, first class leadership could not be more critical, and a number of things contribute to our being able to attract, retain and motivate high calibre Directors, one of which is remuneration.

Outlook

Despite the challenges of the economic environment, we continue to see opportunities in our key markets, and we will continue to invest in expanding our infrastructure and capability to capitalise on their potential.

Strategically, we remain focused on growing in new areas that are aligned to both our customers' needs and our existing strengths across financial services, property and investment.

It is my hope that with Credit Corporation being the beneficiary of a number of long-term investors, we will have their ongoing commitment to enable us to think longer term so that we remain a successful and sustainable company for the next 100 years.

I look forward to the Group continuing to generate attractive returns for its shareholders and enhancing the services we deliver to the communities we serve.

Closing

On behalf of the Board I would like to thank our staff for their ongoing dedication and commitment to Credit Corporation. Their efforts have enabled us to achieve the excellent results we have achieved this year and together we look forward to ensuring the future success of the Group.

I would also like to thank our customers, shareholders and our communities throughout the South Pacific for their continued support.

We look forward to continuing to deliver value for our shareholders into the future. I will now hand over to CEO Peter Aitsi to provide his update.